

Entrepreneurship

Quarter 2 – Module 7

Forecasting Revenues And Costs

This instructional material was collaboratively developed and reviewed by educators from public and private schools, colleges, and universities. We encourage teachers and other education stake holders to email there feedback, comments, and recommendations to the Department of Education at action @deped.gov.ph

We value your feedback and recommendations.



What I Need to Know

Now that you have identified what business to undertake and are familiar with the tools and materials needed in the operation of your business, let us apply what you have learned in the previous module by forecasting the revenues and costs incurred in your business. You might probably be wondering how profits are computed. This module will help guide you realize the revenues and profits of your chosen business.

Revenue is a result when sales exceed the cost to produce goods or render the services. Cost on the other hand simply refers to the amount of money used to produce or manufacture goods/merchandise as well as costs incurred in selling the goods/merchandise. How much revenues and costs incurred in the operation of the business? How are these projected? And how are these used to compute profit/loss of the business shall be learned in this module.

This module is divided into two lessons:

Lesson 1 – Forecasting the revenues of the business

Lesson 2 – Forecasting the costs to be incurred

To be able to successfully complete this module, previous knowledge in multiplying numbers will best help.

Why forecast? We often watch news as Kuya Kim reports the direction of the typhoon in the next 2 days, what Kuya Kim is doing is giving us information taken by satellites and gives us the direction of the typhoon. In weather forecasting, the reporter is giving us advance information that could help us prepare and be ready for upcoming typhoon. This way, risks such as accidents, devastation of properties and loss of life may be prevented.

Forecasting is a tool used in planning that aims to support management or a business owner in its desire to adjust and cope up with uncertainties of the future. Forecasting depend on data from the past and present and make meaningful estimates on revenues and costs. Forecasting revenues and costs is the same as weather forecasting, though forecasting revenues and costs is in the context of business. Entrepreneurs use forecasting techniques to determine events that might affect the operation of the business such as sales expectations, costs incurred in the

business as well as the profit that the business is earning. Making informed estimates reduces risks that might be experienced by the entrepreneur in the future.

In this module, you will be making informed estimates about revenues and calculated estimates involving costs incurred by the business. Factors affecting forecasting will be discussed to better help you in making projections.

After carefully studying the contents of this module, you should be able to:

- Identify essential factors in forecasting revenues and costs;
- Calculate mark-up and selling price of a product or merchandise;
- Compute projected revenues;
- Compute projected costs.
- Create a table showing projected revenue and costs.



What I Know

Before starting with this module, let us see what you already know about forecasting revenues and costs. Answer the questions below.

Encircle the letter that bests correspond to your answer.

1. Refers to the amount added to the cost of a product to determine the selling price –
a. Revenue b. Cost c. Mark Up d. Mark Down
2. Aling Marta sells bibingka in her neighbourhood, every day she can sell 45 pieces of bibingka at 20 pesos each. How much is her daily revenue?
a. 900.00 b. 450.00 c. 800.00 d. 1000.00
3. It is a planning tool that helps entrepreneur copes up with uncertainties in the future operation of the business.
a. Revenue b. Selling c. Benchmarking d. Forecasting
4. The selling price of an item or merchandise is computed by adding cost per unit and _____?
a. Revenue b. Mark Up c. Discount d. Number of Items

5. Mang Berting is a fruit vendor selling at the local public market. He gets his mangoes from a supplier at 25 pesos per kilo and sells it at 45 per kilo to his customers. How much mark-up was Mang Berting adding to his selling price?
a. 25.00 b. 30.00 c. 15.00 d. 20.00
6. Aling Elvie sells t-shirt at 175.00 pesos each. If each t-shirt costs 135.00 pesos, How much is the mark-up?
a. 30.00 b. 45.00 c. 40.00 d. 50.00
7. It is the result when sales exceed the cost to produce goods or render services -
a. Forecasting b. Selling c. Revenue d. Benchmarking
8. It is a tool that allows managers to make educated estimates on revenue and costs of the business in order to cope up with uncertainties of the future –
a. Estimating b. Guessing c. Forecasting d. Benchmarking
9. Refers to goods and merchandise at the beginning of operation of business or accounting period.
a. Merchandise Inventory, end c. Expenses
b. Merchandise Inventory, beginning d. Freight-in
10. Mang Lito sold 5 pairs of slippers. Suppose Mang Lito purchased the 5 pairs of slippers at P 30.00 each and pays P120.00 freight. Calculate how much is the cost of goods sold?
a. 220.00 b. 420.00 c. 270.00 d. 200.00
11. Refers to amount paid to transport goods or merchandise purchased from the supplier to the buyer.
a. Merchandise Inventory, end c. Expenses
b. Merchandise Inventory, beginning d. Freight-in
12. Costs incurred through payment of utilities such as electricity and water -
a. Revenue c. Mark-up
b. Operating expenses d. Free
13. Merchandise or goods purchased are referred to as –
a. Purchases c. Costs
b. Operating Expenses d. Loss

14. It is the result when cost to produce goods or render services is greater than the sales –
- a. Selling b. Revenue c. Benchmarking d. Loss
15. Jean purchased 5 baskets for P 30.00 each. According to her calculation, P 10.00 shall be added to the cost as mark-up. How much is the selling price of each basket?
- a. 35.00 b. 40.00 c. 50.00 d. 60.00

How was the pre-test? If your answers are all correct, well very good! This only shows that you already know about the topic. Please continue to study to know more about the topic.

If your score is low, this means that this module is for you. Studying this module will help you understand the concept of forecasting and how this lesson applies to your daily life. Continue studying this module to know the answers to all the questions and a lot more things to learn.

You may now start learning!

Lesson

1

Forecasting the Revenues of the Business



What's In

You have learned in the previous lesson the 4Ms of operations, you now have the idea on what product/s to manufacture and sell. Now, you also have a business model. One of the most challenging parts in developing a business plan is the financial plan. This part allows the entrepreneur to make decisions based on financial assumptions without even having started the business. Therefore, these financial projections should be given the most attention by the entrepreneur.

Let us now examine how the sale of products generates revenues. In this lesson, we will identify the mark-up and selling price of the product. We will also project the revenues that the business will make from the sale of products



What's New

Have you tried estimating the time that it takes you to travel from home to school? Try to fill in the necessary information in the table below. Write your estimate in Estimated Time column, after arriving to school fill in the Actual Time in the blank provided.

Estimated Time

Actual Time

1. _____

2. _____

3. _____

How close were your estimates compared to the actual time? Did your estimate fell **short** compared to the actual time? What do you think were the factors that might have contributed in getting you early to school? List the reasons in the blank.

On the other hand, does your actual time **exceed** your estimates? What do you think were the factors that might have contributed in arriving later than your estimated time? List the reasons in the blank.



What is It

Making informed estimates requires careful considerations on several factors that might affect the outcome of your travel such as, distance from home to school, the means of transportation you will be taking, the number of passengers and etc. Traveling from home to school on regular basis had helped you arrive with an estimate that was very close to the actual time of arrival.

Considering these factors are essential in making informed estimates by the entrepreneur. Since the business he/she is venturing hasn't started yet, it is important that these factors affecting forecasting will be determined to better help him/her in making the best decisions for the business.

The entrepreneur after realizing the potential for profit of his/her business concept, the next step is to estimate how much the revenue is on daily, monthly and annual basis. Before going to forecasting and projecting the revenues of the business, let us determine first what revenue is.

Revenue is a result when sales exceed the cost to produce goods or render the services. Revenue is recognized when earned, whether paid in cash or

charged to the account of the customer. Other terms related to revenue includes Sales and Service Income. *Sales* is used especially when the nature of business is merchandising or retail, while *Service Income* is used to record revenues earned by rendering services.

You have just learned about what revenue is. This time, let us study the various factors to consider in forecasting revenues.

The entrepreneur would want his/her forecasting for his/her small business as credible and as accurate as possible to avoid complications in the future. In estimating potential revenue for the business, factors such as external and internal factors that can affect the business must be considered. These factors should serve as basis in forecasting revenues of the business. These factors are:

1. *The economic condition of the country.* When the economy grows, its growth is experienced by the consumers. Consumers are more likely to buy products and services. The entrepreneur must be able to identify the overall health of the economy in order to make informed estimates. A healthy economy makes good business.
2. *The competing businesses or competitors.* Observe how your competitors are doing business. Since you share the same market with them, information about the number of products sold daily or the number of items they are carrying will give you idea as to how much your competitors are selling. This will give you a benchmark on how much products you need to stock your business in order to cope up with the customer demand. This will also give you a better estimate as to how much market share is available for you to exploit.
3. *Changes happening in the community.* Changes' happening in the environment such as customer demographic, lifestyle and buying behaviour gives the entrepreneur a better perspective about the market. The entrepreneur should always be keen in adapting to these changes in order to sustain the business. For example, teens usually follow popular celebrities especially in their fashion trend. Being able to anticipate these changes allows the entrepreneur to maximize sales potential.
4. *The internal aspect of the business.* Another factor that affects forecasting revenues in the business itself. Plant capacity often plays a very important role in forecasting. For example, a "Puto" maker can only make 250 pieces

of puto every day; therefore he/she can only sell as much as 250 pieces of puto every day. The number of products manufactured and made depends on the capacity of the plant, availability of raw materials and labour and also the number of salespersons determines the amount of revenues earned by an entrepreneur.

Now that all factors affecting forecasting revenues are identified, you can now calculate and project potential revenues of your chosen business. The table below shows an example of revenues forecasted in a Ready to Wear Online Selling Business.

Example: Ms. Fashion Nista recently opened her dream business and named Fit Mo'to Ready to Wear Online Selling Business, an online selling business which specializes in ready to wear clothes for teens and young adults. Based on her initial interview among several online selling businesses, the average number of t-shirts sold every day is 10 and the average pair of fashion jeans sold every day is 6. From the information gathered, Ms. Nista projected the revenue of her Fit Mo'to Ready to Wear Online Selling Business.

She gets her supplies at a local RTW dealer in the city. The cost per piece of t-shirt is 90 pesos, while a pair of fashion jeans costs 230 pesos per piece. She then adds a 50 percent mark up to every piece of RTW sold.

Mark up refers to the amount added to the cost to come up with the selling price. The formula for getting the mark up price is as follows:

$$\text{Mark Up Price} = (\text{Cost} \times \text{desired mark up percentage})$$

$$\text{Mark Up for T-shirt} = (90.00 \times .50)$$

$$\text{Mark Up for T-shirt} = 45.00$$

In calculating for the selling price, the formula is as follows:

$$\text{Selling Price} = \text{Cost} + \text{Mark Up}$$

$$\text{Selling Price} = 90.00 + 45.00$$

$$\text{Selling Price for T-shirt} = 135.00$$

Table 1 shows the projected daily revenue of Ms. Nista's online selling business. Computations regarding the projected revenue is presented in letters in upper case A, B, C, D, and E.

Table 1
Projected Daily Revenue
Fit Mo'to Ready to Wear Online Selling Business

| Type of RTW's | Cost per Unit (A) | Mark-up 50% (B) | Selling Price (C) | Projected Volume (D) | Projected Revenue (E) |
|---------------|----------------------|-----------------------|----------------------|--|--------------------------|
| | | | | Average No. of Items Sold (Daily) | (Daily) |
| | (A) | (B)= (A x .50) | (C)= (A+B) | (D) | (E) =(C x D) |
| T-Shirts | 90.00 | 45.00 | 135.00 | 10 | 1,350.00 |
| Jeans | 230.00 | 115.00 | 345.00 | 6 | 2,070.00 |
| Total | 320.00 | 160.00 | 480.00 | 16 | 3,420.00 |

Table 2 shows the projected monthly and yearly revenue of Ms. Nista's online selling business. Computations about the monthly revenue is calculated by multiplying daily revenues by 30 days (1 month).

Example, in table 1 the daily revenue is 3,420.00. To get the monthly projected revenue it is multiplied by 30 days. Therefore,

$$\text{Projected Monthly Revenue} = \text{Projected daily revenue} \times 30 \text{ days}$$

$$\text{Projected Monthly Revenue} = 3,420.00 \times 30$$

$$\text{Projected Monthly Revenue} = 102,600.00$$

On the other hand, the projected yearly revenue is computed by multiplying the monthly revenue by 12 months. The calculation for projected yearly revenue is as follows.

$$\text{Projected Yearly Revenue} = \text{Projected daily revenue} \times 365 \text{ days}$$

$$\text{Projected Yearly Revenue} = 3,420.00 \times 365$$

$$\text{Projected Yearly Revenue} = 1,248,300.00$$

Table 2
Projected Monthly and Yearly Revenue
Fit Mo'to Ready to Wear Online Selling Business

| Type of RTW's | Selling Price | Projected Volume | Projected Revenue | Projected Volume | Projected Revenue |
|---------------|---------------|-----------------------------|-------------------|------------------------|---------------------|
| | | Average | (Monthly) | Average No. | (Yearly) |
| | | No. of Items Sold (Monthly) | | of Items Sold (Yearly) | |
| | (C)= (A+B) | F= (D x 30 days) | G= (C x F) | H= (D x 365 days) | I= (C x H) |
| T-Shirts | 135.00 | 300 | 40,500.00 | 3,650 | 492,750.00 |
| Jeans | 345.00 | 180 | 62,100.00 | 2,190 | 755,550.00 |
| Total | 480.00 | 480 | 102,600.00 | 5,840 | 1,248,300.00 |

Table 3 shows the projected monthly revenues covering one year of operation. The table shows an average increase of revenue every month by 5 percent except June, July to October and December. While the month of June has twice the increase from previous month, 10 percent. Let us consider that months covering July to October are considered to be Off-Peak months, therefore sales from July to October are expected to decrease. It is assumed that there is no increase in revenue from July to August while from August to October the decrease in revenues is 5 percent from previous month. Since revenues from sales of RTW's are considered to be seasonal, it assumed that there is 10 percent increase in revenue from November to December.

Computation for assumed increase of revenue on specific months is as follows:

Projected Monthly Revenue (Increase) = Revenue (January) x 5 % increase

Projected Monthly Revenue (Increase) = 102,600.00 x .05

Projected Monthly Revenue (Increase) = 5,130.00

Projected Revenue for February = Revenue (January) + Amount of increase

Projected Revenue for February = 102,600.00 + 5,130.00

Projected Revenue for February = 107,730.00

On the other hand, decrease in revenue is computed as follows:

$$\text{Projected Monthly Revenue (Decrease)} = \text{Revenue (August)} \times 5\% \text{ increase}$$

Projected Monthly Revenue (Increase) = 144,041.14 x .05

Projected Monthly Revenue (Increase) = 7,202.06

Projected Revenue for September = Revenue (August) - Amount of decrease

Projected Revenue for September = 144,041.14 – 7,202.06

Projected Revenue for September = 136,839.08

Table 3

Projected Monthly Revenue

Fit Mo'to Ready to Wear Online Selling Business

| Month | January | February | March | April | May | June |
|---------|------------|------------|------------|------------|------------|------------|
| Revenue | 102,600.00 | 107,730.00 | 113,116.50 | 118,772.33 | 124,710.94 | 137,182.04 |

| Month | July | August | September | October | November | December |
|---------|------------|------------|------------|------------|------------|------------|
| Revenue | 144,041.14 | 144,041.14 | 136,839.08 | 129,997.13 | 136,496.98 | 150,146.68 |

Important Assumptions:

February to May Increase of 5% from previous revenue

June Increase of 10% from previous revenue

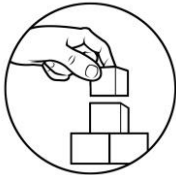
July to August The same Revenue

September to October Loss 5% from previous revenue

November Increase 5% from previous revenue

December Increase 10% from previous revenue

The numbers in the last table are very attractive, having revenues that are increasing in numbers is a good sign that a business is growing. However, an entrepreneur should not be overwhelmed on these revenues as these are just gross revenue, this is not the final amount of profit or income an entrepreneur will get at the end of every period. Take note that the amount of net revenue is still subjected to the expenses incurred in the operation of business.



What's More

After learning the calculations presented, you can now compute the projected revenue by day, month and year based on your business concept.

Aling Minda is operating a buy and sell business, she sells broomsticks (walis tingting) in her stall at a local market. She gets her broomsticks from a local supplier for 25 pesos each. She then adds 50 percent mark-up on each broomstick. Every day, aling Minda can sell 30 broomsticks a day.

Use the template below and fill in the necessary figures based on the scenario. Remember to use the factors to consider in projecting revenues and refer to tables 1, 2 and 3 as your guide.

Table 1

Projected Daily Revenue

Name of Business _____

| Merchandise/ Products | Cost per Unit (A) | Mark-up _____% (B) | Selling Price (C) | Projected Volume (D) | Projected Revenue (E) |
|--------------------------|----------------------------|--------------------------|-------------------------|---|-----------------------------|
| | | | | Average No. of Items Sold (Daily) | |
| | (A) | (B)= (A x .50) | (C)= (A+B) | (D) | (E) =(C x D) |
| | | | | | |
| Total | | | | | |

Use the calculations you have made in Table 1 to successfully complete the information in Tables 2 and 3 and calculate the projected monthly and yearly revenue of Aling Minda's business.

Table 2

Projected Monthly and Yearly Revenue

Name of Business _____

| Merchandise/ Products | Selling Price | Projected Volume | Projecte d | Projected Volume | Projected Revenue |
|--------------------------|------------------|---|---------------|--|----------------------|
| | | Average No. of Items Sold (Monthly) | Revenue | Average No. of Items Sold (Yearly) | (Yearly) |
| | | | (Monthly) | | |
| | (C)= (A+B) | F= (D x 30 days) | G= (C x F) | H= (D x 365 days) | I= (C x H) |
| | | | | | |
| | | | | | |
| Total | | | | | |

For Table 3, use the following assumed increases in sales every month. From January to May, 5 percent increase from previous sales. For the month of June, 10 percent increase from previous sales. For the months July to December, record the same sales every month.

Table 3

Projected Monthly Revenue

Name of Business _____

| Month | January | February | March | April | May | June |
|---------|---------|----------|-------|-------|-----|------|
| Revenue | | | | | | |

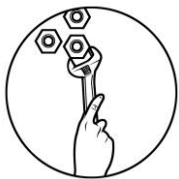
| Month | July | August | September | October | November | December |
|---------|------|--------|-----------|---------|----------|----------|
| Revenue | | | | | | |



What I Have Learned

Entrepreneurs use _____ techniques to determine events that might affect the operation of the business. Factors such as _____ and _____ much be considered to avoid possible complications in the future. To forecast revenues, it is best that the entrepreneur must be acquainted with the _____, and _____ to determine the selling price of a product. This way, the selling price is then multiplied to the projected volume to arrive with the _____.

The entrepreneur should always present the assumptions to consider in projecting revenues, may it be seasonality, economic slow down or changes in costumer preferences and the like. This will help achieve the best educated estimate of your revenues



What I Can Do

It is understood that you now know how to calculate mark-up and selling price of an item or merchandise. Let us try the following situation to see if you have understood the concepts.

Kyle, a local entrepreneur is planning to sell 10 liter bottled water in his sari-sari store. A local water purifying business in the city sells their 10 liter bottled water for 20 pesos each. Kyle wants to add 25 per cent mark up from the original cost of 10 liter bottled water. Calculate how much mark-up Kyle should add. Determine how much should be the selling price for 10 liter bottled water.

Lesson

2

Forecasting the Costs to be Incurred



What's In

You have learned in Lesson 1 that the revenue generated by selling RTW's has a corresponding amount of costs incurred. This cost was the amount of RTW before adding its mark-up price. Each piece of t-shirt has a corresponding cost of 90.00 pesos, while each pair of jeans has a corresponding cost of 230.00 pesos. These costs are incurred each time revenues are generated. On the other hand, the business also incurs costs in its operation, these costs are called **Operating Expenses**. Operating expenses such as payment on Internet connection, Utilities expense (i.e. Electricity), Salaries and Wages and Miscellaneous are essential in the operation of the business; this allows the business to continue operate in a given period of time.

Now that you have learned what cost is, let us identify the costs and expenses incurred by the business in generating revenues.



What's New

Have you tried recording the amount of money you spend from your daily allowance? You might be experiencing difficulties in making your allowance meet your daily needs as student. Try to fill in the information below to come up with a breakdown of your daily allowance.

Breakdown on Daily Allowance

Name: _____

Daily Allowance: ₱ _____

Less: Daily Expenses

Food ₱ _____

Fare _____

School Supplies _____

Recreation _____

Others _____

Total ₱ _____

Were you able to get a positive total? You may have spent your daily allowance wisely and saved some of your daily allowance. Did you spend all your allowance and ended up with a zero total? You may have spent your allowance on expenses essential to your need as a student.

Considering your expenses as a student, a business also has expenses necessary for its upkeep. It would be best for any business to arrive with a positive total; this would mean profit for the business. Careful consideration and projection of these factors could mean success for the business.



What is It

You have just learned about what cost is. This time let us identify costs and expenses incurred by the business.

Cost of Goods Sold / Cost of Sales refer to the amount of merchandise or goods sold by the business for a given period of time. This is computed by adding the beginning inventory to the Net Amount of Purchases to arrive with Cost of goods available for sale from which the Merchandise Inventory end is subtracted.

Merchandise Inventory, beginning refers to goods and merchandise at the beginning of operation of business or accounting period.

Purchases refer to the merchandise or goods purchased. Example: Cost to buy each pair of Jeans or t-shirt from a supplier.

Merchandise Inventory, end refers to goods and merchandise left at the end of operation or accounting period.

Freight-in refers to amount paid to transport goods or merchandise purchased from the supplier to the buyer. In this case, it is the buyer who shoulders this costs.

In a merchandising business such as Fit Mo'to Ready to Wear Online Selling Business, the formula to compute for costs of goods sold is as follows:

| | |
|----------------------------------|--------------|
| Merchandise Inventory, beginning | P XX.XX |
| Add: Net Cost of Purchases | XX.XX |
| Freight-in | <u>XX.XX</u> |
| Cost of Goods Available for Sale | P XX.XX |
| Less: Merchandise Inventory, end | <u>XX.XX</u> |
| Cost of Goods Sold | P XX.XX |

Let us calculate the cost of goods sold of Ms. Fashion Nista's online selling business for the month of January.

Table 4 shows the costs incurred during the first month of operation of Fit Mo'to Ready to Wear Online Selling Business. Since Ms. Nista get her stocks from an online supplier, there is no need to order ahead and stock more items. Therefore, there is no Merchandise Inventory, beginning as well as Merchandise Inventory, end. Ready to wear items purchased online from the supplier are then sold as soon as they arrived.

Cost of goods is calculated by simply multiplying the number of items sold every month (300 t-shirts and 180 pairs of jeans) to its corresponding cost per unit (90.00 pesos for every t-shirt and 230.00 pesos for every pair of jeans). A cost in transporting the goods from the supplier to the seller (Ms. Nista) or Freight-in is then added to Net Cost of Purchases.

Table 4
Projected Cost of Goods Sold (Monthly)
Fit Mo'to Ready to Wear Online Selling Business

| Type of RTW's | Cost per Unit | Projected Volume | Projected Costs of Purchases (Monthly) |
|---------------|---------------|-------------------------------------|--|
| | | Average No. of Items Sold (Monthly) | |
| | (A) | F = (D x 30 days) | J = (A x F) |
| T-Shirts | 90.00 | 300 | 27,000.00 |
| Jeans | 230.00 | 180 | 41,400.00 |
| Total | 320.00 | 480 | 68,400.00 |

Table 5 shows how freight-in is calculated.

It is assumed that at an average, Ms. Nista pays at least 250.00 pesos for every 12 items delivered successfully by her supplier through a courier service. Since her average order is 480 pieces every month, she pays:

$$480 \text{ pcs.} / 12 \text{ pcs.} = 40$$

$$40 \times 250.00 = 10,000.00$$

Table 5
Freight-in paid by Ms. Nista every month

| Type of RTW's | No. of Items Sold (Daily) | Projected Volume | Freight In (January Only) |
|---------------|---------------------------|--|---------------------------|
| | | Average No. of Items Purchased (Monthly) | |
| | (A) | F = (D x 30 days) | K = (F/12) x 250 |
| T-Shirts | 10 | 300 | 6,250.00 |
| Jeans | 6 | 180 | 3,750.00 |
| Total | 16 | 480 | 10,000.00 |

Let us now substitute the values from table 4 and table 5. Since there is no Merchandise Inventory, beginning and end, let us add Cost of Purchases and Freight-in to get the Cost of Goods Sold.

| | |
|----------------------------------|--------------------|
| Merchandise Inventory, beginning | P 00.00 |
| Add: Net Cost of Purchases | 68,400.00 |
| Freight-in | <u>10,000.00</u> |
| Cost of Goods Available for Sale | P 78,400.00 |
| Less: Merchandise Inventory, end | <u>00.00</u> |
| Cost of Goods Sold | P <u>78,400.00</u> |

Now that the cost of goods sold is now calculated, let us now identify expenses that the business incurs in its operation. Operating expenses such as Internet connection, Utilities like electricity and miscellaneous expense are important to keep the business running. These expenses are part of the total costs incurred by the business in its day-to-day operation and are paid every end of the month. The operating expenses and assumed amount are presented below:

| | |
|--------------------------|-------------------|
| Operating Expenses | |
| Add: Internet Connection | P 1,299.00 |
| Utilities (Electricity) | 800.00 |
| Miscellaneous expense | P <u>300.00</u> |
| Total Operating Expense | P <u>2,399.00</u> |

To calculate the total costs incurred by the business, cost of goods sold and total operating expenses are then added. The calculation for the costs incurred for the month of January is presented below:

| | |
|-------------------------|--------------------|
| Cost of Goods Sold | P 78,400.00 |
| Total Operating Expense | P <u>2,399.00</u> |
| Cost | P <u>80,799.00</u> |

The projected monthly costs covering the first of operation of Ms. Nista's Fit Mo'to RTW Online Selling Business is presented in Table 6.

Table 6
Projected Monthly Costs (Year 1)
Fit Mo'to Ready to Wear Online Selling Business

| Month | January | February | March | April | May | June |
|-----------------------|-----------|-----------|-----------|-----------|-----------|------------|
| Cost of Goods Sold | 78,400.00 | 82,320.00 | 86,436.00 | 90,757.80 | 95,295.69 | 104,825.26 |
| Expenses | 2,399.00 | 2,446.98 | 2,495.92 | 2,545.84 | 2,596.75 | 2,648.69 |
| Total Cost & Expenses | 80,799.00 | 84,766.98 | 88,931.92 | 93,303.64 | 97,892.44 | 107,473.95 |

| Month | July | August | September | October | November | December |
|-----------------------|------------|------------|------------|------------|------------|------------|
| Cost of Goods Sold | 110,066.52 | 110,066.52 | 104,563.20 | 99,335.04 | 104,301.79 | 114,731.97 |
| Expenses | 2,701.66 | 2,755.70 | 2,810.81 | 2,867.03 | 2,924.37 | 2,982.85 |
| Total Cost & Expenses | 112,768.19 | 112,822.22 | 107,374.01 | 102,202.06 | 107,226.16 | 117,714.82 |



What's More

After learning the calculations presented, you can now compute the projected costs by month on your business concept. Use the template below and fill in the necessary figures based on the scenario.

Mang Eduard operates a buy and sell business. He sells umbrellas in his shop near the city mall. He gets his umbrellas from a local dealer. Each umbrella costs 90.00 pesos each. Expecting rainy season to come, Mang Eduard purchased 4 dozens of umbrellas every week. The supplier then charges 200.00 pesos per dozen for freight. Mang Eduard can sell 12 umbrellas every day.

Remember to use the factors to consider in projecting revenues and refer to tables 4, 5 and 6 as your guide. Suppose Mang Eduard purchases and sales is the same every month, fill in the necessary information in table 6.

Table 4
Projected Cost of Goods Sold (Monthly)

| Merchandise/ Products | Cost per Unit | Projected Volume | Projected Costs of Purchases (Monthly) |
|--------------------------|---------------|--|---|
| | | Average No. of Items Sold (Monthly) | |
| | (A) | $F = (D \times 30 \text{ days})$ | $J = (A \times F)$ |
| | 90 | | |
| | | | |
| | | | |
| Total | | | |

Table 5
Freight-in paid

| Merchandise/ Products | No. of Items Sold (Daily) | Projected Volume | Freight In (1 Month Only) |
|--------------------------|------------------------------|--|------------------------------------|
| | | Average No. of Items Purchased (Monthly) | |
| | (A) | $F = (D \times 30 \text{ days})$ | $J = (F/12) \times \text{P}200.00$ |
| | | | |
| | | | |
| Total | | | |

Table 6
Projected Monthly Costs (Year 1)

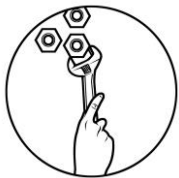
| Month | January | February | March | April | May | June |
|--------------------------|---------|----------|-------|-------|-----|------|
| Cost of Goods Sold | | | | | | |
| Expenses | | | | | | |
| Total Cost & Expenses | | | | | | |

| Month | July | August | September | October | November | December |
|--------------------------|------|--------|-----------|---------|----------|----------|
| Cost of Goods Sold | | | | | | |
| Expenses | | | | | | |
| Total Cost & Expenses | | | | | | |



What I Have Learned

The entrepreneur should always present the assumptions to consider in projecting costs, may it be cost of goods sold or operating expenses. This will help achieve the best educated estimates of your costs. The entrepreneur must clearly identify costs incurred in the business operation. _____ is the amount of goods or merchandise sold during a period of time incurs a large portion of the total cost of a _____ business. The cost of goods sold can be calculated by simply multiplying _____ to its corresponding _____. A cost in transporting the goods from the supplier to the seller or _____ is then added to Net Cost of Purchases.



What I Can Do

Now that you know how to calculate the projected costs of a business, look around and interview any business existing in your community such as sari-sari stores or buy and sell business. Using the table for Projected Costs of Goods Sold (Daily) below. Fill in the necessary figures from the business you have selected.

Projected Cost of Goods Sold (Daily)

Business Name: _____

| Goods/ Merchandise | Cost per Unit | Projected Volume | Projected Costs of Purchases (Daily) |
|-----------------------|---------------|--------------------------------------|---|
| | | Average No. of Items Sold (Daily) | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total | | | |



Assessment

Now, that you have finished the module, let us check what you have learned. Answer the questions given below by encircling the letter of the correct answer.

1. Profit or Loss is computed by subtracting cost / expenses from –
 - a. Income/Revenue
 - b. Sales Discount
 - c. Sales
 - d. Operating expenses
2. Sales is an account title used to describe goods or merchandise sold by a business. What nature of business uses *Sales*?
 - a. Servicing
 - b. Barber Shop
 - c. Merchandising
 - d. Both Servicing and Merchandising
3. Irene sells fashion bags online. She gets each bag for P 150.00 from a local supplier. She then adds P 100.00 as mark-up for each bag. How much is the selling price of each bag?
 - a. P 200.00
 - b. P 250.00
 - c. P 300.00
 - d. P 350.00
4. A merchandising business earns through –
 - a. Rendering services
 - b. Lending money
 - c. Donating products
 - d. Buys and sells goods
5. It is a tool that allows managers to make educated estimates on revenue and costs of the business in order to cope up with uncertainties of the future –
 - a. Estimating
 - b. Guessing
 - c. Forecasting
 - d. Benchmarking
6. Which of the following businesses use Service Income in recording revenues?
 - a. Beauty Salon
 - b. Sari-sari store
 - c. Movie House
 - d. Hardware
7. Refers to the amount of merchandise or goods sold by the business for a given period of time –
 - a. Operating Expense
 - b. Cost of Goods Sold
 - c. Deductions
 - d. Sales
8. Aling Coring sold 5 pieces of rugs. She bought the rugs for 20 pesos and sold it for 35 pesos. How much is the total cost of goods sold?
 - a. P 80.00
 - b. P 90.00
 - c. P 100.00
 - d. P 110.00

9. Freight-in refers to the amount paid to transfer goods or merchandise purchased from the _____.
a. Buyer to the supplier c. Buyer to buyer
b. Supplier to the buyer d. Supplier to supplier
10. The costs incurred through payment of utilities such as water, electricity, internet connection is considered as –
a. Costs c. Operating expenses
b. Purchases d. Personal Expense of the owner
11. Nathaniel sells bottled water in a nearby city bus terminal. Every day he can sell 30 pieces of bottled water at 20 pesos each. How much is Nathaniel' daily sales?
a. P 900.00 b. P 800.00 c. P 700.00 d. P 600.00
12. The amount added to the cost of a product to determine the selling price is called –
a. Mark-up b. Discount c. Mark-down d. Sale
13. Lina sold all ten t-shirts for 1,500.00 pesos. Suppose she added 50.00 pesos as mark-up price for every t-shirt. How much was the cost for every t-shirt sold?
a. P 80.00 b. P 90.00 c. P 100.00 d. P 110.00
14. Refers to goods and merchandise left at the end of operation or accounting period.
a. Merchandise inventory, beginning c. Freight-in
b. Merchandise inventory, end d. Freight-out
15. The Total Cost and Expenses is calculated by –
a. Adding cost and expenses c. Adding revenue and expense
b. Subtracting expenses from costs d. Subtracting expense from revenue

Now that you have learned how to forecast revenues and cost of the business, investigate how these concepts are being applied by existing businesses in your community. Using the table below, fill in the necessary information based on your investigation.

Name of Business: _____

[illegible]